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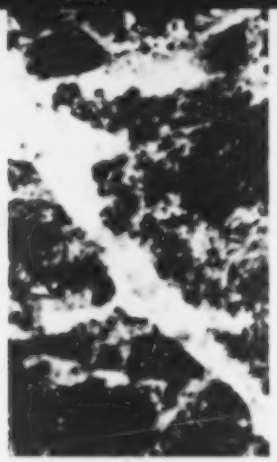

STATE OF THE CONVENIENCE STORE INDUSTRY 1989

NACS®
NATIONAL ASSOCIATION OF CONVENIENCE STORES

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Foreword

The National Association of Convenience Stores has been working for more than 28 years to provide the best education and training assistance and research and information services. As the convenience store industry's national representative, we are proud to feature this timely report in your Association's list of publications. We feel this report represents a significant contribution to our goal of improving the data base for managerial decision-making.

NACS wishes to thank Arthur Andersen & Co., a recognized authority in the field of retail food surveys, for conducting, compiling and reporting this survey; and Gerke Economics, Inc., for work on data analysis and report writing.

T. C. Godwin, Jr.
T-Mart Food Stores, Inc.
Vice-Chairman,
Executive Committee for Education and Training

State of the Convenience Store Industry 1989
NACS Members $20.00
Non-members $50.00

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Highlights

Industry Totals

	1987	1988
Stores	67.5 Thousand	69.2 Thousand
Total Sales	$59.6 Billion	$61.2 Billion
Gas Sales	$20.5 Billion	$22.0 Billion
Merchandise Sales	$39.1 Billion	$39.2 Billion
Profits Before Taxes	$1,312 Million	$1,163 Million
Number of Employees	500 Thousand	498 Thousand

Industry Trends

(Change from previous year)

Stores	+5.4%	+2.5%
Sales	+10.6%	+2.7%
Profits	-6.3%	-11.4%

Industry Averages

Sales Per Store Merchandise	$579,000	$567,000
Sales Per Store Gas	$509,000	$539,000
Investment Required for New Urban Store	$682,800	$773,300
Sales Per Customer	$2.03	$1.83
Gross Profit Margin Merchandise	35.9%	36.4%
Gross Profit Margin Gas	10.6%	11.5%
Gross Profit Margin Combined	24.4%	26.2%
Profit Before Taxes	2.2%	1.9%
Convenience Store Inflation Rate	2.5%	2.4%
Annual Gallons of Gasoline Sold per Store	564,000	612,000

About This Study

The NACS State of the Convenience Store Industry Report has become a recognized publication that presents reliable and up-to-date industry data. NACS is once again distributing this annual State of the Convenience Store Industry report in the belief that this data base will help increase the quality and improve the accuracy of business decisions throughout the convenience store industry. A total of 141 companies that operate 22,731 store units (approximately 40% of the stores on the NACS membership roster) responded to our request for various types of statistical information. This compares to a sample size of 150 companies and 22,446 stores last year.

We have expanded our Report this year to include sections on Financial Analysis and Human Resources. In response to the interests of our members for additional information relating to balance sheet data, financial ratios, employee demographics, and employee benefits, our survey questionnaire was revised to gather this data.

Following the procedure instituted in developing data for prior reports, we again mailed a condensed questionnaire to "A" size companies (1-10 stores). An independent profile is presented in a separate section of this report. The survey of companies of larger size was based on the more extensive questionnaire which was revised to obtain additional information.

In surveys of this type, responding companies differ from year to year so direct comparability is never entirely possible. We believe, however, that the conclusions drawn from this survey provide an accurate picture of the state of the convenience store industry and serve as a valid indicator of how the industry has coped with the climate in which it operated throughout 1988.

In addition, all the figures in this report are averages based on the number and size of the companies participating in the survey. In calculating averages, each company's response and specific survey question have been weighted according to the relationship of the company's size to the aggregate size of all reporting companies.

As a result, the sample size of each response presented herein will vary. Past years' data have been presented to the extent that such information was presented last year, or information relating to new questions was available.

Arthur Andersen & Co., long recognized for its expertise in retail food surveys, assembled the data in this report. Arthur Andersen & Co. and NACS feel that the sheer number of responses is highly representative of the state of the industry in 1988 and provides the research reliability desired by NACS Members.

All company responses have been kept confidential by Arthur Andersen & Co.

Table of Participation
NACS Membership and Services Directory as of 12/31/88

Classification	Number of Stores	Number of Members	Number of Stores	Number of Useable Responses	Number of Stores
A	1-10	806	3,550	66	334
B	11-50	375	8,349	35	789
C	51-200	106	9,344	22	2,469
D	201-500	34	10,304	11	3,345
E	Over 500	17	25,747	7	15,794
		1,338	57,298	141	22,731

The National Association of Convenience Stores (NACS)

Founded in 1961, the National Association of Convenience Stores (NACS) is an international non-profit trade association representing more than 1,300 retail members operating convenience stores in the United States and around the world. NACS has become the convenience store industry's national representative in government relations, member training, and educational programs and services.

The mission of NACS is to assist members in increasing their business effectiveness and profitability by: providing needed education, training and an exchange of ideas; encouraging a high level of business ethics and a positive image for the industry; and encouraging governmental action beneficial to the industry through the active participation of its membership.

According to NACS Constitution and Bylaws, the NACS Definition of a Convenience Store is:

"A convenience store is a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services.

"While such operating features are not a required condition of membership, convenience stores have the following characteristics:

"a) While building size may vary significantly, typically, the size will range from 1,500 - 5,000 square feet, with the majority between 2,000-3,000 square feet;
"b) Off-street parking and/or convenient pedestrian access;
"c) Extended hours of operation with the majority open 24 hours, seven days a week;
"d) Product mix includes grocery items, and also includes items from the following groups: dairy, bakery, snack foods, beverages, tobacco, health and beauty aids, and confectionery;
"e) Product mix may also include prepared foods to go, frozen foods, meats, deli items, produce, publications, general merchandise, and gasoline; and
"f) The store may offer various services, including but not limited to, automated teller machines (ATMs), check cashing, money orders, movie rentals, lottery tickets, film processing, and video games."

The following chart illustrates the number of convenience stores owned by NACS member companies and the number of convenience stores in the United States over 1,000 square feet in building size.

	Number of Stores Represented by NACS Members	Number of Convenience Stores in Industry*
1984	41,357	57,300
1985	45,828	61,000
1986	48,869	64,000
1987	53,638	67,500
1988	57,298	69,200

*United States, greater than 1,000 square feet.

Nineteen Hundred Eighty-Eight

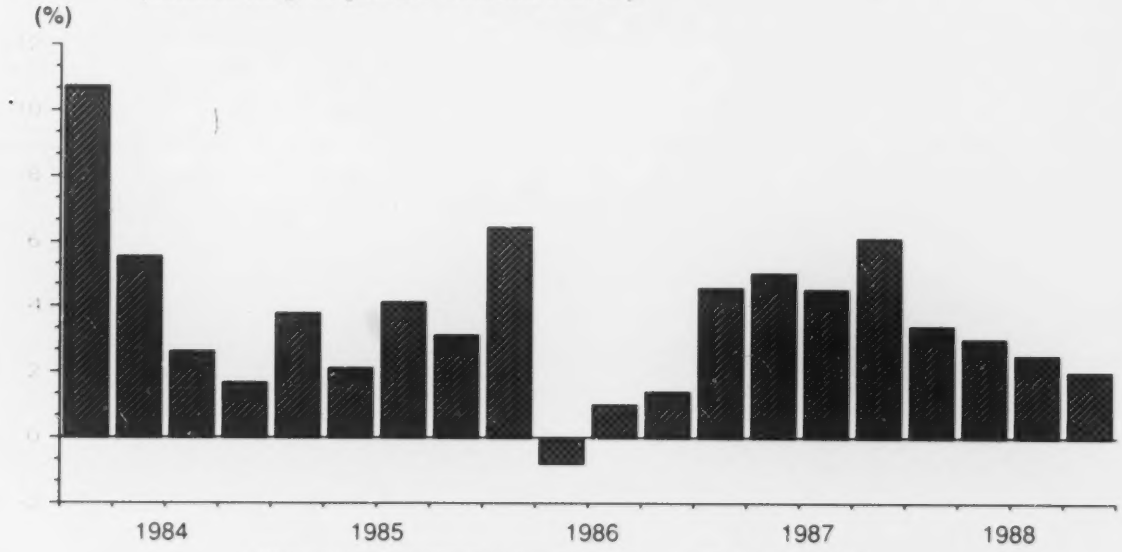
Overview

Economic performance during 1988 considerably exceeded most expectations with the economy's real output rising at an annual average rate of 3.8 percent, what some feel is a long-term growth rate of the economy. At the beginning of the year, there were two possible impediments to growth. One was the stock market crash in October, 1987, and the other was the apparently large inventory buildup at the end of the year.

The large increase in real business inventories, combined with slower spending (especially consumer spending) resulting from the decline in stock prices, was expected to depress output growth in 1988. The growth in real GNP would have been stronger had it not been for the prolonged drought which affected agricultural production during the summer. These losses reduced the year-to-year increase in GNP for 1988 and boosted consumer prices slightly.

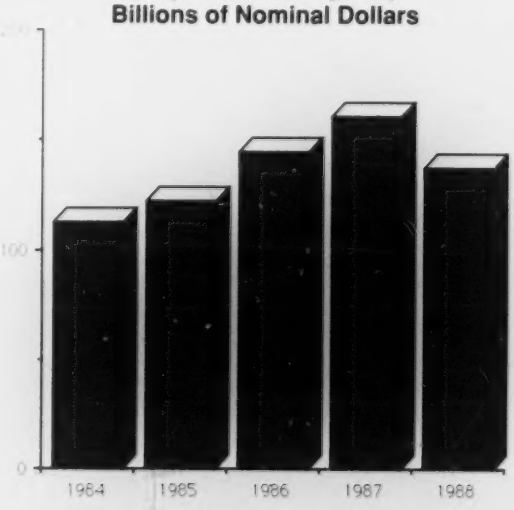
The composition of real output moved into a better balance with business fixed investment and exports both posting impressive gains. Little impact of the stock market crash was evident in total fixed investment which grew at an annual aver-

Figure 1 - Real Gross National Product Quarterly Percent Change (Seasonally Adjusted Annual Rates)



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Figure 2 -U.S. Trade Imbalance
(Exports Less Imports)
Billions of Nominal Dollars



Source: Survey of Current Business

age rate of 6.6 percent during 1988, with producers durable equipment expenditures up nearly 12.5 percent. Real net exports increased $32.1 billion during the first three quarters of the year, almost double their improvement during all of 1987.

The overall decline in the real value of the U.S. dollar since 1985 and slower unit labor cost growth in U.S. manufacturing have improved the competitiveness of U.S. goods in world markets. The decline in the U.S. trade imbalance reflected faster real income growth and a greater expected real, after-tax return on capital in the United States relative to the rest of the world. The swing in the trade balance is also reflected in the greater growth in domestic demand relative to that of domestic output during this period.

The stock market crash had a small impact on personal consumption expenditures which, after a weak fourth quarter in 1987, rose at an annual average rate of 7.1 percent during 1988, but below the 7.5 percent increase in personal income. The personal savings rate averaged about one percentage point higher than the 1987 rate.

The consumer price index increased 4.1 percent in 1988; but, excluding the volatile food and energy components, consumer prices were only slightly above the average for the last five years.

Employment continued to increase in 1988. Civilian employment rose while the civilian unemployment rate fell to 5.3 percent, one of the lowest rates in fourteen years. Over three million additional jobs were added to nonfarm payroll employment. Unemployment rates have declined substantially for all major industrial and occupational categories and for all major demographic groups.

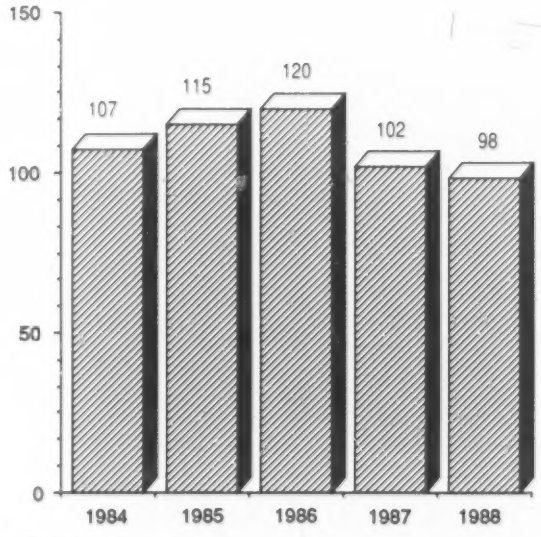
In the latter part of 1988, eyes turned toward Washington and the start of a new presidential administration. Economic growth is expected to continue with no definitive signs of a slowdown or recession in the near future.

Business

The improved balance in the composition of output and growth seemed to have positively affected businesses in 1988. The most recent figures compiled by Dun and Bradstreet show that 98 out of every 10,000 businesses failed in 1988. This was a 4 percent decrease in the failure rate below 1987 and the second year in a row showing a decrease.

Retail trade and wholesale trade business failures combined showed a 3.3 percent decrease in 1988 compared to 1987. But, individually, the 5.7 percent decrease in the retail trade failure rate was partially offset by the 3.5 percent increase in the wholesale trade failure rate. New business incorporations fell by less than one percent in 1988, the second year in a row of decline.

Figure 3 - U.S. Business Failures Per 10,000 Businesses



Source: Dun and Bradstreet

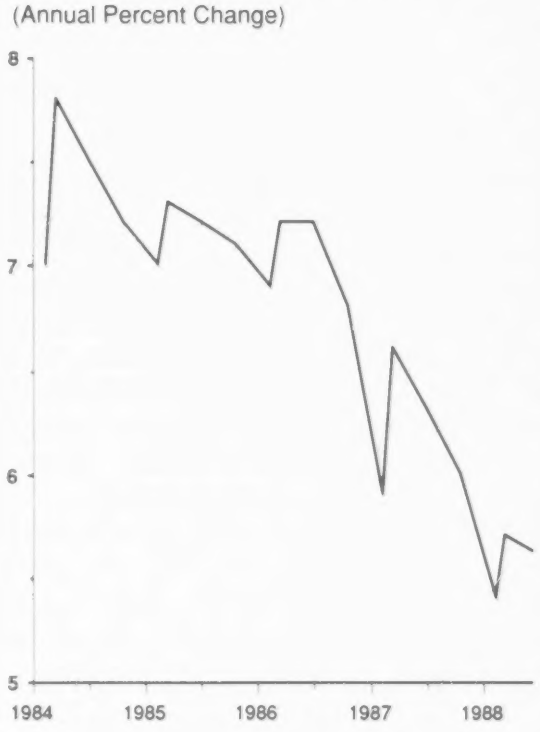
Workers

The unemployment rate for all civilian workers continued to fall in 1988, reaching 5.3 percent in December and an annualized rate of 5.5 percent. This is the lowest jobless rate in fourteen years; no state had double-digit unemployment. In some areas, employers are experiencing shortages of qualified recruits. This is especially true in the Northeast where some unemployment levels fell below 4.0 percent.

The goods producing sector showed significant job gains for the second straight year. The service producing sector continued to grow at a rapid pace with services and wholesale trade increasing the fastest.

The employment-to-population ratio for persons over sixteen years of age reached an all-time high of 62.9 percent in 1988 and has been climbing for almost a decade. The stable unemployment level was aided by the 7.5 percent growth in personal income which far outpaced the 4.1 percent increase in consumer prices in 1988.

Figure 4 - National Unemployment Rate



Source: Bureau of Labor Statistics

Figure 5 - Unemployment Rate by State, 1988

Source: Bureau of Labor Statistics

Prices

The consumer price index rose 4.1 percent in 1988 compared to 3.7 percent in 1987. Food prices in 1988 were about 4.1 percent over 1987 levels. These increases are below the 7.5 percent increase in personal income.

Signs of inflation were mixed in 1988. Inflation was affected by higher energy prices at the retail level and higher food prices.

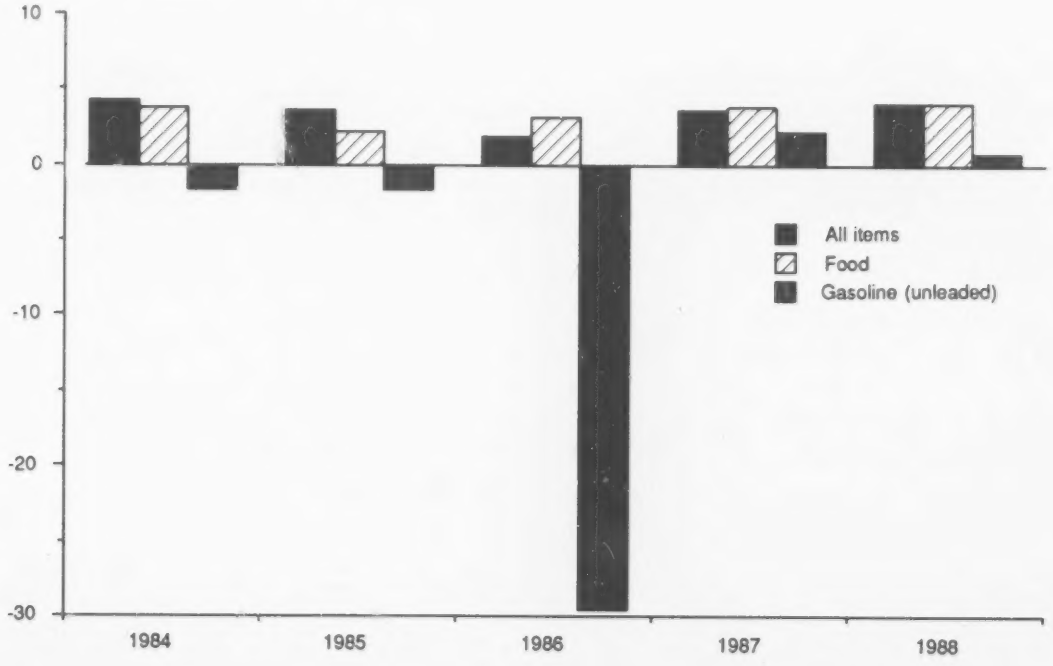
The drought of 1988 was one of the worst on record for principal agriculture regions of the Midwest and Upper Mountain States. Large inventory stocks moderated the drought's effect on prices, but cash market prices for corn and wheat were up about 30 percent relative to pre-drought levels. However, food price inflation should not be high in 1989 since we have already felt the effects of the drought.

The drought also affected international prices and the trade balance—curtailing supplies and raising prices. In addition, oil imports rose almost back to 1970 levels. We may face higher oil prices and higher import prices overall.

In addition, capacity utilization rates are averaging 85 percent. The tighter capacity utilization and growing labor shortages may result in an acceleration in inflation in 1989. With consumer confidence up and employment and employment cost levels higher, inflation may be indicated.

Figure 6 - Inflation (Deflation) Rate

(Annual Percent Change)



Source: Consumer Price Index

Finance

Interest rates (prime) continued to creep up throughout the year, especially in the second half, and reached a peak of 10.5 percent. The annualized prime rate was 9.3 percent, well above the 1987 level of 8.2 percent. Prior to 1988, interest rates had been generally falling since 1981. The real interest rate (adjusted for the rate of inflation and inflation expectations) also crept up. Short term interest rates, which underlie most adjustable rate mortgages, began to move upward in the spring while long term rates showed little change.

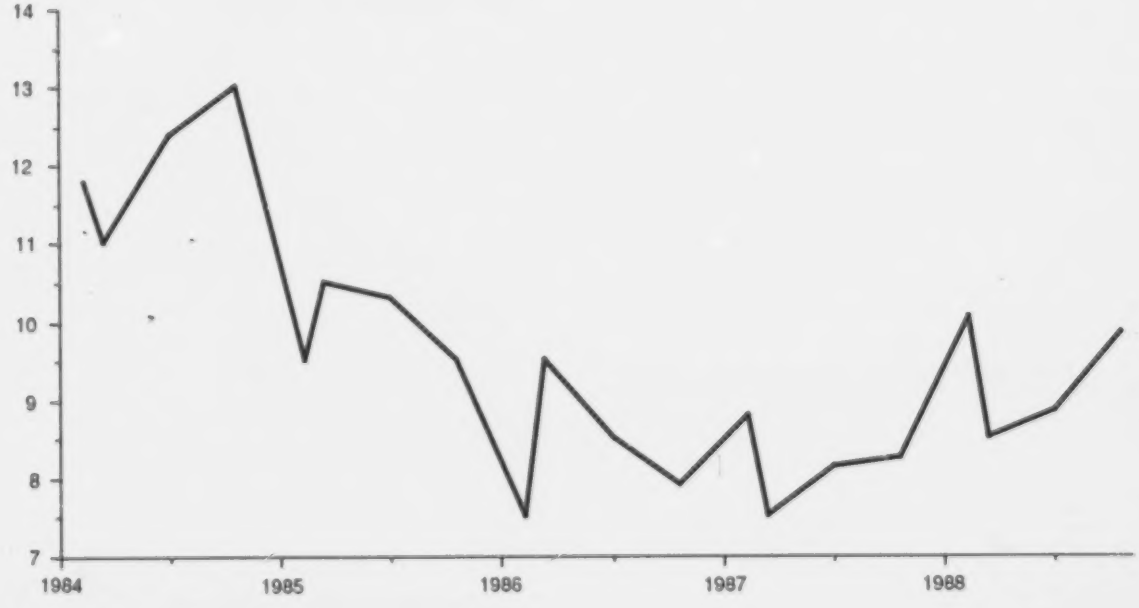
Business investment continued to grow rapidly in 1988, suggesting again that the impact of the stock market crash was small. The reason why business investment did not collapse is that the stock market recovered some of its losses during the year, and the decline in interest rates after the crash lowered the replacement cost of capital and offset some of the initial decline in stock prices.

Nonresidential fixed investment rose 9.2 percent; the growth was mainly accounted for by producers durable equipment spending which rose 12.5 percent.

Corporate bond yields, AAA rating, increased 3.5 percent during 1988. Business offerings of bonds and notes fell 9.8 percent below the 1987 level, and stock offerings were down almost 33 percent for the year.

The Dow Jones advanced strongly at the beginning of the year. Slower growth began mid-year when exports and busi-

Figure 7 - Annualized Prime Rate Charged by Banks

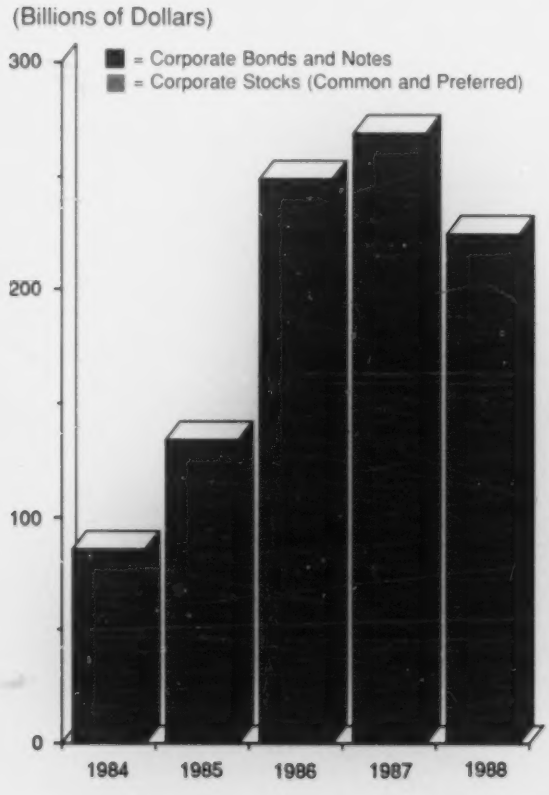


Source: Survey of Current Business

ness capital spending slowed; business fixed investment lagged slightly while the dollar was strong in the last half of the year.

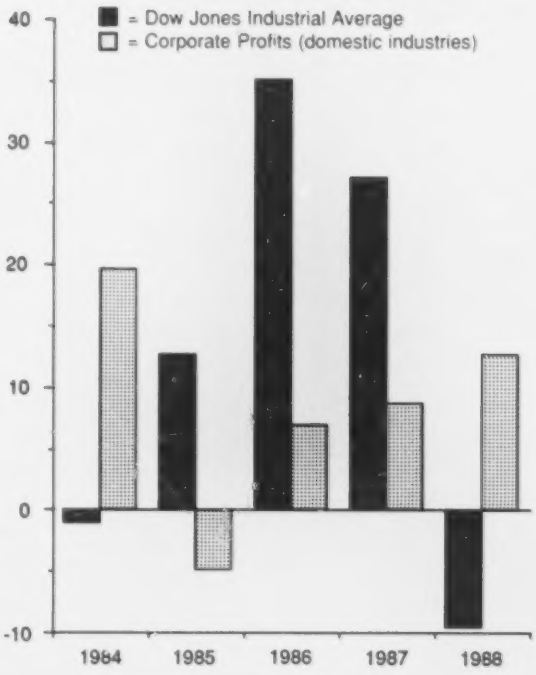
Nonresidential fixed investment and exports should continue to grow rapidly, further boosting domestic production. The lower value of the dollar is making the United States more competitive internationally. Export gains have helped economic growth; export production increases employment and capital spending. But, as the trade balance improvement slows, import prices may rise and export growth may slow.

Figure 8 - Total Corporate Security Issues, Gross Proceeds



Source: Federal Reserve

Figure 9 - Annual Percent Change: Dow Jones Industrial Average, Corporate Profits



Source: Dow Jones, Federal Reserve

Consumers

Total personal consumption expenditures rose 7.1 percent during 1988 which was lower than the increase in disposable personal income and much lower than the 4.1 percent increase in consumer prices. Although consumer confidence remains high, expenditures were slowing later in the year. In particular, auto sales and housing activity were declining.

Consumer credit outstanding increased 8.9 percent during 1988 which is above the 6.0 percent increase of 1987. Consumer credit growth slowed towards the end of the year. The rising interest rates on credit-financed purchases may be dampening

consumer spending. Real personal consumption expenditures grew 2.8 percent in 1988. The personal saving rate was almost one percentage point higher than 1987 as some of the increased disposable income was shifted to savings.

Consumer spending will continue to grow but not act as the primary power behind economic growth as it was in the beginning of the economic recovery.

Sales

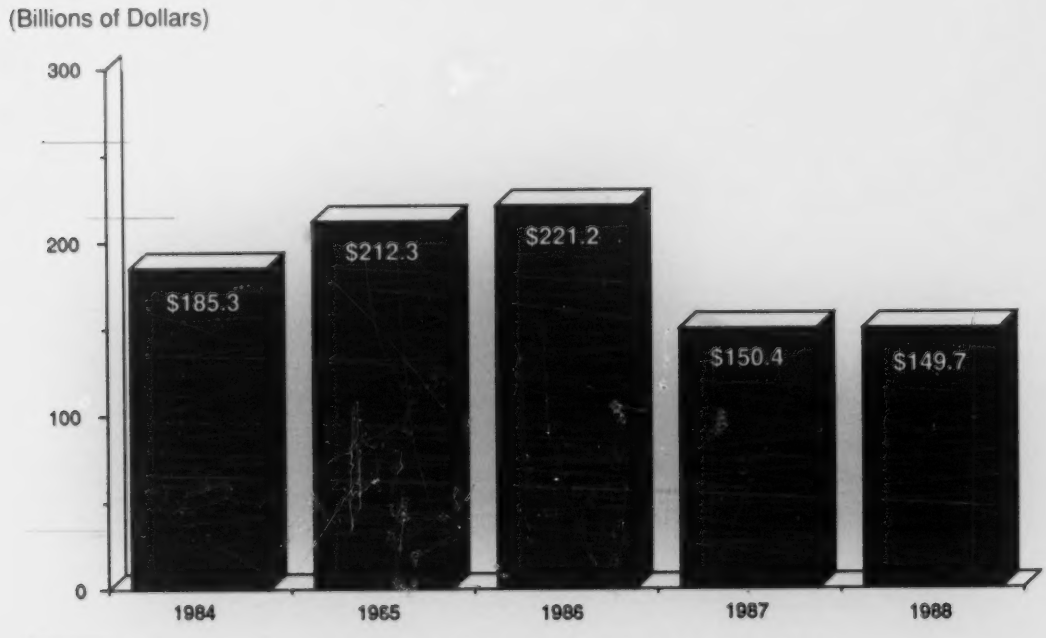
The pickup in personal consumption expenditures and the increase in consumer installment credit were reflected in higher total retail sales which were 6.7 percent above the 1987 level. Durable goods sales were up 6.9 percent in 1988 compared to the 3.8 percent increase in 1987.

Consumer spending on motor vehicles increased 6.5 percent in 1988, reversing the one percent drop in 1987. Since September of 1987, auto incentives offered by the "Big Three" U.S. auto makers were down. But, in recent months, they have announced special, low interest rate financing incentives to decrease the inventory buildup.

Non-durable goods sales increased 5.0 percent in 1988. Grocery sales were up 5.3 percent, below the 7.4 percent increase in nominal gross national product. Gasoline service station sales dollars were 4.7 percent above 1987.

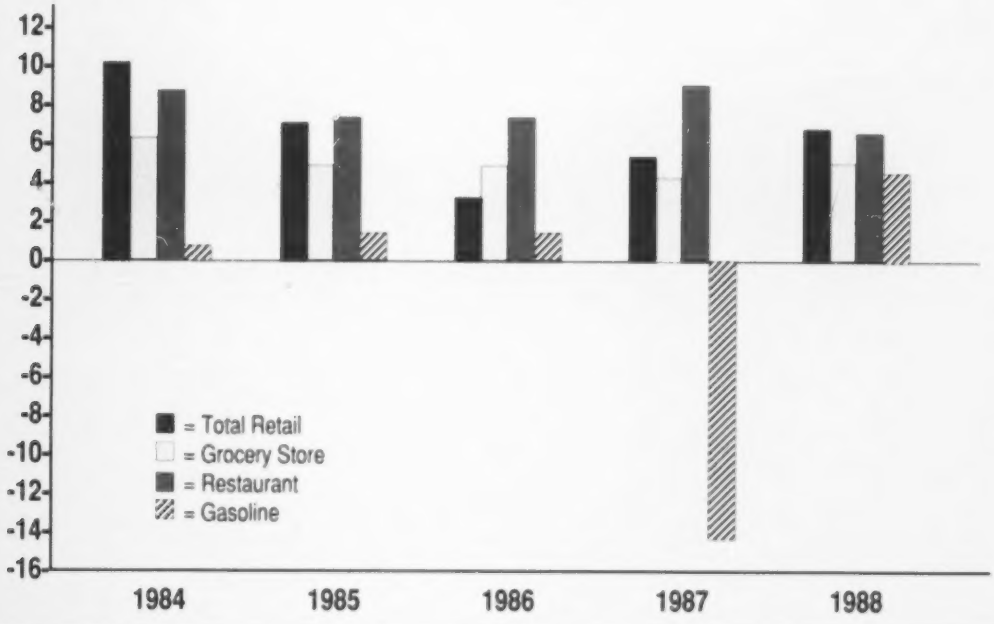
Recent economic data indicate there is a trend toward slower sales growth.

Figure 10 - Federal Government Budget Deficit



Source: Budget of the United States Government, Fiscal Year 1989

Figure 11 - Annual Percentage Change in Retail Sales



Change

Nineteen eighty-eight was another year of economic expansion and stabilization while, at the same time, business persons cast a wary eye on the economic activity. Different sectors of the economy became stronger while others were slowing.

It was another year of heavy acquisition and buyout activity for many industries, including the convenience store industry. For many companies, this increased the efficiencies of operations. In the retailing sector, increased competition from fast food outlets, drug stores, supermarkets, etc., as well as from other convenience stores, forced operators to further streamline operations.

Outside forces, such as the prolonged drought of the summer of 1988 and increased awareness of the environment, have affected the industry. New Environmental Protection Agency underground storage tank regulations are making it more costly to operate a convenience store. In addition, industry concerns, such as inventory shrinkage, employee shortages and turnover, and operating regulations, have made it become increasingly important to reexamine the concept of convenience and the strategies for operating in an increasingly competitive environment.

As the industry examines its image and adjusts to an ever-widening myriad of changes, it becomes more and more important to have standard, specialized information as a basis of comparison. The State of the Convenience Store Industry Report is a current source of specialized information about fundamental convenience store business characteristics and the new emerging trends.

Industry Sales and Profits

Total sales for the nation's 69,200 convenience stores were approximately $61.2 billion in 1988, up only 2.7 percent from 1987. This compares with the 6.7 percent increase in total retail sales in 1988 over 1987. Most of the increase can be attributed to the increase in gasoline sales and to the addition of new stores as average merchandise sales per store was down slightly below 1987.

Industry gasoline sales increased 7.3 percent in 1988 to $22.0 billion. This compares very favorably to the 4.7 percent increase in gasoline service station sales in the U.S. in 1988. The percentage of stores selling gas in 1988 was approximately the same as 1987 and gas prices were about the same; therefore, the increase can be attributed to greater volume coming from both new and existing stores selling gas. The average monthly gallons sold per store increased to 51,000 gallons.

In-store sales for the convenience store industry were $39.2 billion in 1988, about the same as 1987. The 1988 sales increases for all grocery stores and restaurants were 5.3% and 6.6%, respectively.

Although the industry continued its upward trend in sales, total industry profit before taxes declined over 11 percent to $1,163 million from $1, 312 million in 1987. Higher expenses more than offset the increase in the industry's sales and gross margins. Average store profits dropped to $16,800 in 1988 from $19,200 in 1987.

Total industry employment at 498,000 was about the same as 1987. This number includes full-time and part-time store employees, supervisory personnel, and corporate staff.

Figure 12 - Total Convenience Store Industry Sales

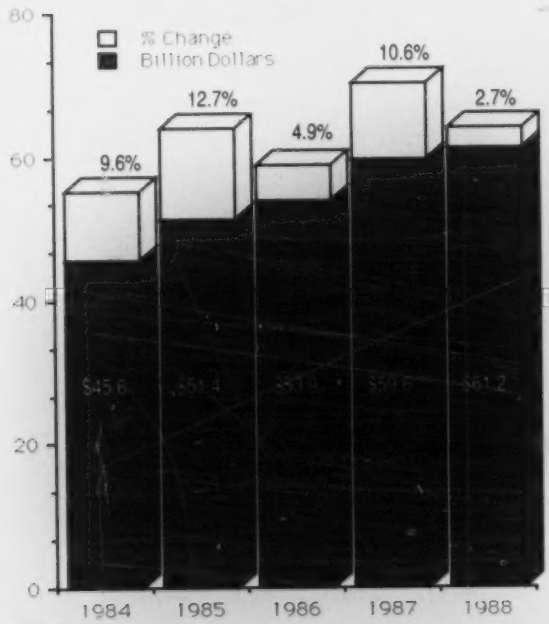


Figure 13 - Total Merchandise vs. Gas Sales
(Billions of $)

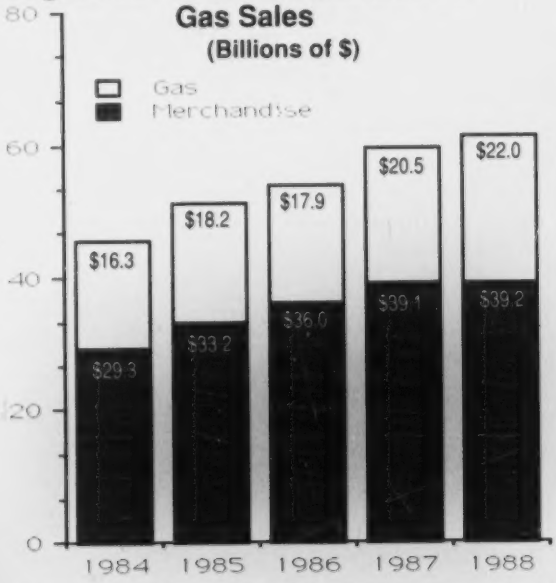


Figure 14 - Total Convenience Store Industry Profit Before Taxes
(in Millions)

Sales and Profits Per Store

Nineteen eighty-eight saw another decline in the industry's pretax profit; it fell to 1.9 percent. Average gross profit margin improved to 26.2 percent in 1988 vs. 24.4 percent in 1987. However, this healthy margin increase was more than offset by increases in store operating expenses and "other" expense. The other expense, which includes interest expense, may have increased because of merger, acquisition and leveraged buyout activity. With the exception of Group "D" Companies, all groups showed a decline in pretax profit as a percent of sales. The "D" Companies showed a substantial increase in pretax profit in 1988 compared to 1987.

Figure 15 presents a comparative analysis of profit and loss information relating to merchandise and gas sales.

A further analysis of gross margin is presented in Figure 18. The gross margin on gas increased to 11.5 percent in 1988 from 10.6 percent in 1987. Merchandise sales gross margins also improved in 1988 to 36.4 percent, representing a .5 percentage point increase over 1987.

Converting percentages to dollars, Figure 17 shows that the profit before taxes per store dropped to $16,800 in 1988. Profit before taxes per store has been declining each year since 1984 when it averaged $23,100. In 1987, the decline was attributed to eroding gross margins. As described earlier, the decline in 1988 was due to sharply escalating business costs which more than offset improved gross margins.

Average yearly store sales (excluding gas) dropped slightly to $567,000. The primary drop in sales per store occurred among the "E" size Companies. This reported decline may have been the result of store acquisitions. Some "E" Companies reported significant store acquisitions during 1988. Sales from acquired stores are counted from the date of acquisition, but the number of acquired stores are counted in the company's average number of stores for the year.

Figure 15 - Comparative Profit and Loss Information (1987 and 1988)
(As a Percent of Total Sales by Classification Group)

	B		C		D		E		Average	
	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988
Merchandise Sales	43%	36%	54%	46%	58%	54%	70%	71%	66%	61%
Gas Sales	57	64	46	54	42	46	30	29	34	39
Total Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Goods Sold	80.5	81.4	77.5	78.7	76.6	77.6	74.1	73.4	75.6	73.8
Gross Profit	19.5	18.6	22.5	21.3	23.4	22.4	25.9	26.6	24.4	26.2
Direct Store Operating Expense	14.3	13.6	16.8	16.5	17.9	16.8	19.0	20.2	18.2	19.9
Store Operating Profit	5.2	5.1	5.7	4.8	5.5	5.6	6.9	6.3	6.2	6.3
Corporate G&A	(3.2)	(3.6)	(3.7)	(3.4)	(4.2)	(3.2)	(4.4)	(3.9)	(4.2)	(3.9)
Other Income	1.3	.8	1.3	1.3	1.3	.7	1.4	1.9	1.5	1.8
Other Expense	(0.4)	(0.4)	(0.8)	(0.5)	(0.9)	(0.4)	(1.7)	(2.5)	(1.3)	(2.3)
Pretax Profit	2.9%	1.8%	2.5%	2.2%	1.7%	2.7%	2.2%	1.8%	2.2%	1.9%

If stores were acquired late in the year, the average sales per store would be depressed. The reverse, of course, holds true for companies that sold/closed stores during 1988.

Average annual dollar gasoline sales were $539,000 per store selling gas. This is a 5.9 percent increase over the 1987 average per store of $509,000.

Average sale per customer (excluding gas) dropped to $1.83 in 1988 from $2.03 in 1987. All size companies had a sales per customer transaction at or below the 1987 company size average, but the largest decline in average sale was reported by the largest companies. Average weekly store sales (excluding gas) declined to $10,918, a 2 percent decrease from 1987. Average merchandise sales per week per square foot in 1988 was $3.46 compared to $3.76 per square foot in 1987. The increase in capital being invested in new stores will undoubtedly cause operators to emphasize increased sales per square foot.

Figure 16 - Pretax Profit as a Percent of Total Sales by Classification Group

Group	1984	1985	1986	1987	1988
B	1.7%	1.4%	3.3%	2.9%	1.8%
C	1.8	1.7	2.4	2.5	2.2
D	2.3	2.5	2.0	1.7	2.7
E	3.3	3.2	3.0	2.4	1.8
Average	3.1	2.7	2.6	2.2	1.9

Figure 17 - Profit Before Taxes Per Store
(In Thousands of Dollars)

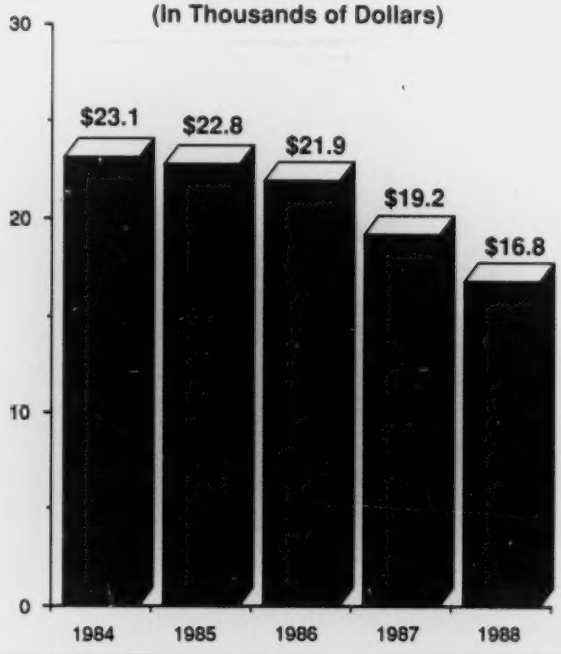


Figure 18 - Gross Profit Margin as a Percent of Sales

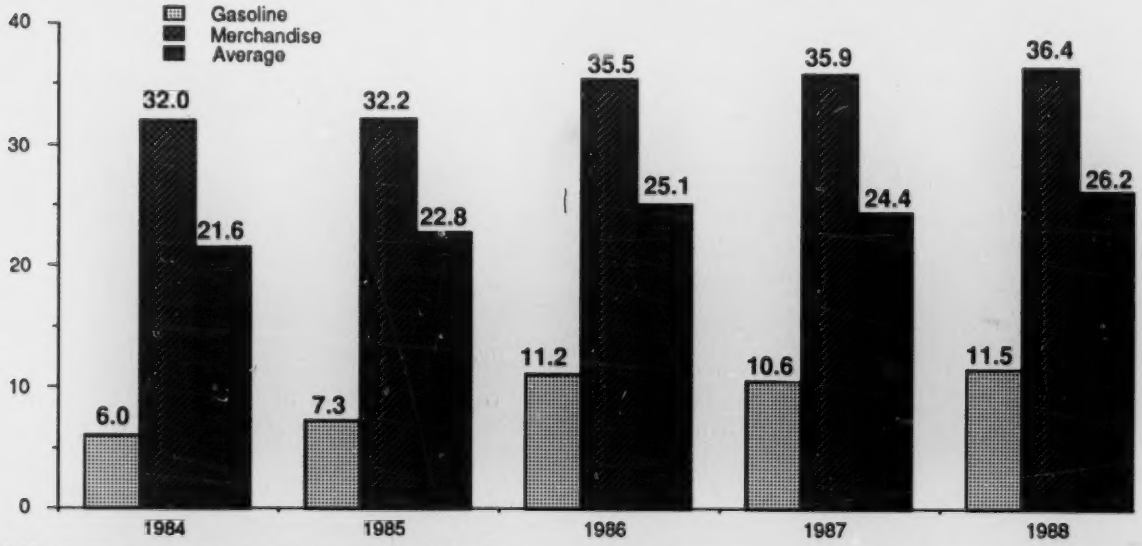


Figure 19 - Average Yearly Merchandise Sales Per Store by Classification Group

Group	1984	1985	1986	1987	1988	1988 Percent Change
B	$408,000	$397,000	$411,000	$371,000	$403,000	8.6%
C	431,000	439,000	466,000	450,000	442,000	(1.8%)
D	436,000	470,000	448,000	496,000	587,000	18.3%
E	542,000	581,000	619,000	624,000	590,000	(5.4%)
Average	**511,000**	**544,000**	**564,000**	**579,000**	**567,000**	**(2.1%)**

Figure 20 - Average Weekly Merchandise Sales Per Store by Classification Group

Group	1984	1985	1986	1987	1988
B	$7,850	$7,640	$7,900	$7,130	$7,743
C	8,290	8,440	8,970	8,660	8,494
D	8,380	9,040	8,610	9,540	11,281
E	10,420	11,170	11,900	12,000	11,354
Average	**9,830**	**10,460**	**10,850**	**11,140**	**10,918**

Figure 21 - Average Merchandise Sales Per Week Per Square Foot by Classification Group

Group	1987	1988
B	$3.68	$3.57
C	3.56	3.94
D	3.60	4.44
E	4.37	3.00
Average	**3.76**	**3.46**

Figure 22 - Average Yearly Merchandise Sales Per Store

(In Thousands of Dollars)

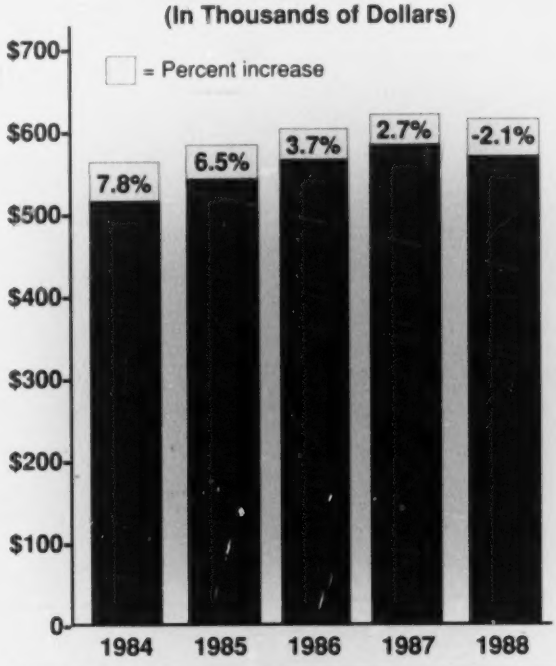


Figure 23 - Average Merchandise Customers Per Week Per Store by Classification Group

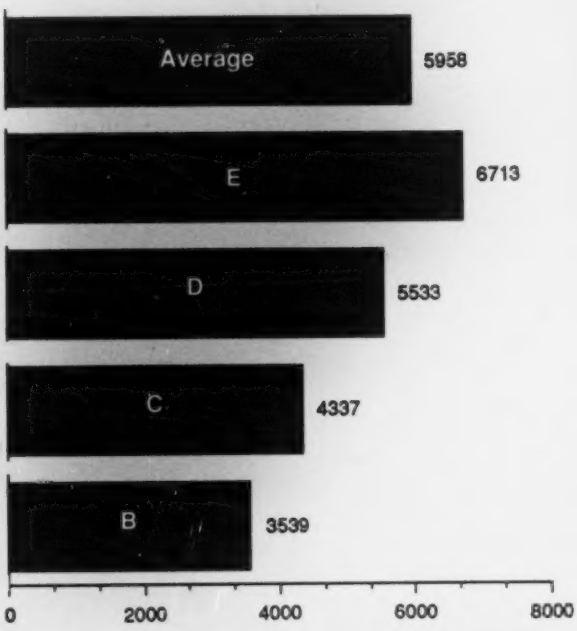


Figure 24 - Average Merchandise Sale Per Customer by Classification Group

Group	1984	1985	1986	1987	1988
B	$2.69	$2.40	$2.54	$2.37	$2.19
C	2.04	2.22	2.02	1.96	1.96
D	1.98	2.14	1.93	2.27	2.04
E	N/A	1.91	1.96	1.93	1.69
Average	**2.04**	**2.07**	**1.98**	**2.03**	**1.83**

Financial Analysis

This year's report contains balance sheet information for the convenience store industry. In addition, data on return on assets and return on net worth are provided.

On average, 13.2 percent of a company's assets are in inventory. The smaller the company, the larger the share of assets accounted for by inventory. Property, plant and equipment account for about 50 percent of industry assets. This percent ranges from 48 percent for group "E" Companies to 62 percent for group "C" Companies.

On the liabilities side of the ledger, accounts payable equals 13.9 percent of assets while other current liabilities account for 11.2 percent. Interestingly, the ratio of accounts payable to inventory is about 1 to 1 for all sizes of companies. Long-term debt as a percent of assets goes up as company size increases with the industry average being 51 percent. Other long-term liabilities were equal to 7.4 percent of total assets.

Net worth as a percent of assets was in the 30 percent range for the group "B," "C," and "D" companies. The group "E" Companies' net worth was only 9.9 percent of total assets. This can be attributed to the financial restructuring of one of the group "E" Companies. Pretax return on assets averaged 4.5% for the companies reporting. For the companies where the pretax return on net worth could be calculated, it ranged from 25 to 34 percent.

Figure 25 - Balance Sheet Information

	B	C	D	E	Average
Current Assets:					
Inventory	20.8%	17.7%	14.6%	11.9%	13.2%
Other Current Assets	21.8%	13.5%	11.2%	7.9%	9.3%
Total Current Assets	42.6%	31.2%	25.9%	19.8%	22.5%
Net Property, Plant & Equipment	52.0%	61.7%	58.0%	47.8%	50.7%
Other Assets	5.4%	7.1%	16.1%	32.4%	26.8%
Total Assets	100%	100%	100%	100%	100%
Current Liabilities:					
Accounts Payable	23.2%	17.7%	16.0%	12.6%	13.9%
Other Current Liabilities	17.0%	11.8%	8.6%	11.3%	11.2%
Total Current Liabilities	40.2%	29.5%	24.6%	23.9%	25.1%
Long-Term Debt	25.7%	21.3%	34.6%	59.6%	51.4%
Other Long-Term Liabilities	1.2%	12.3%	9.9%	6.6%	7.4%
Net Worth	32.9%	36.9%	30.9%	9.9%	16.1%
Total Liabilities & Net Worth	100%	100%	100%	100%	100%
Pretax Return on Assets	7.6%	4.0%	7.9%	3.8%	4.5%
Pretax Return on Net Worth	29.9%	24.8%	33.6%	*	*

*The negative net worth of a group "E" Company resulted in a meaningless return on net worth ratio to group "E Companies" and "Average".

Human Resources

During 1988, on average, industry companies had 7.2 employees per store--6.5 store employees and 0.7 non-store employees per store. These data are similar to the averages for 1987.

About two-thirds of all store employees work full-time. The "E" Companies have a larger percent of full-time store personnel (89%) than do the "B" group (59%), "C" group (54%), and "D" group (48%) companies.

The majority of people working in convenience stores are women (63%). The "D" group companies have relatively more men working in stores compared to the other group categories.

The industry has tapped the older worker--12 percent of store employees are over 54 years old. However, the industry still depends heavily on younger people. Twenty-seven percent of all store employees are less than 25 years old.

Data on types of employee benefits offered are available for the first time. A majority of the companies surveyed provide free uniforms for all classifications of employees; almost none offer free meals; and less than 10 percent provide employee discounts on store purchases.

A variety of other benefits ranging from dental plans to profit sharing are offered by companies. In all cases, the store manager is most likely to receive a "benefit" followed by assistant manager, full-time clerk, and then part-time clerk.

As the industry copes with labor shortages, companies will undoubtedly be evaluating the use of "benefits" to recruit and retain employees.

Figure 26 - Store Employee Characteristics, Percent of All Store Employees

	B	C	D	E	Average
Full-time	59.3	54.2	48.0	88.9	67.7
Part-time	40.7	45.8	52.0	11.1	32.3
Male	31.6	36.5	46.5	34.4	37.4
Female	68.4	63.5	53.5	65.6	62.6
Under Age 20	10.0	12.7	18.7	17.1	16.1
Age 20-24	33.3	29.2	32.2	23.0	27.0
Age 25-54	47.0	51.1	42.3	42.5	44.5
Over Age 54	9.4	7.0	6.8	17.4	12.4

Figure 27 - Store Employee Benefits

Percent of Companies Offering Benefits for Store Employees

	Store Manager	Assistant Manager	Full-Time Clerk/Cashier	Part-Time Clerk/Cashier
Free Uniforms	70	70	69	68
Free Meals	1	-	-	-
Discounts on Purchases	9	9	9	9
Bonuses	88	39	15	11
Profit Sharing	55	55	54	31
Paid Vacation	99	93	87	38
Paid Sick Leave	71	62	49	8
Medical Insurance	95	87	80	18
Life Insurance	88	83	73	18
Disability Insurance	61	49	39	8
Dental Insurance	42	39	34	11
Pension	27	24	23	11
Tuition Reimbursement	31	30	24	8
Flex Benefits/Cafeteria Plan	13	13	11	-

Store Development

The rate of store growth slowed to a net increase of 2.5 percent in 1988 compared to a 5.4 percent increase for 1987 as the total number of stores in the industry increased by only 1,700 stores to 69,200. The decline in store growth is due to store closings, excluding stores sold, almost tripling from 1 percent in 1987 to 2.9 percent in 1988 and the rate of new stores opened declining to 5.4 percent.

There was also a continued increase in the investment required for new stores which influenced the decline in new store openings.

As we saw in the Sales and Profits Per Store section of this report, store profitability continued to decline. Although we do not have a breakdown of store sales between new stores and existing stores, it is clearly evident that annual sales and profits for new stores will need to exceed the averages for existing stores by a sizable amount to insure the recovery of the substantial investment required for a new store, as shown in Figure 29. With the reduction in profitability, the industry must not only achieve substantial increases in new store sales but must also improve productivity and profitability in order for new stores to generate an adequate return on investment.

The average investment in a new urban store increased by 13.3 percent over 1987 with rural stores increasing by only 2.9 percent. This sharp contrast in the increase in investment required for urban stores compared to rural stores is primarily attributable to the significant increase in the cost of land for new urban store locations.

The average cost of land for new rural stores, on the other hand, declined by almost 6 percent in 1988 from $156,900 to $148,000. The average investment required for land for new urban stores increased by 55 percent from $226,000 in 1987 to $350,500 in 1988. This reflects the increasingly competitive environment for a declining number of choice urban sites which can yield the sales volume necessary for an expensive new store to generate an acceptable return on investment.

Building costs increased for both urban and rural stores. As in 1987, building costs are rising faster for urban stores than rural stores.

Figure 28 - Store Growth Analysis

	1984	1985	1986	1987	1988
New Stores Opened	7.3%	8.0%	6.4%	6.4%	5.4%
Acquired Stores	2.9%	3.6%	2.6%	2.7%	7.0%
	10.2%	11.6%	9.0%	9.1%	12.4%
Stores Sold or Closed	(4.8%)	(5.1%)	(4.4%)	(3.7%)	(9.9%)
Net Increase in Stores	5.4%	6.5%	4.6%	5.4%	2.5%
Actual Number of Stores (000's)	57.3	61.0	64.0	67.5	69.2

Figure 29 - Investment Per New Store

	1984		1985		1986		1987		1988	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Land	$170,200	$108,700	$212,800	$110,800	$275,400	$141,500	$226,000	$156,900	$350,500	$148,000
Building	149,800	106,900	180,000	118,900	158,300	141,500	181,300	152,800	199,100	156,500
Equipment										
Fast Food	14,100	9,100	19,000	16,200	19,900	18,500	22,100	17,700	21,900	17,100
Gas	55,100	49,400	65,700	73,700	88,000	89,500	84,900	85,300	84,500	95,200
Merchandise	61,000	39,300	63,300	48,100	68,300	55,300	64,500	51,500	65,600	62,500
Total Equipment	130,200	97,800	148,000	138,000	176,400	163,300	171,500	154,500	172,000	174,800
Inventory	46,000	42,800	56,900	43,100	58,600	50,100	64,000	53,200	51,600	53,400
Total Investment	$496,200	$356,200	$597,700	$410,800	$668,600	$496,400	$682,800	$517,400	$773,300	$532,700

Equipment costs were comparable to 1987 for new urban stores. For rural stores, however, there was an overall increase from $154,500 to $174,700 which was caused by increases in investments in both gas and merchandise equipment. Nineteen eighty-eight also saw a leveling in the investment in inventory for rural stores and a decline for urban stores from $64,000 to $51,600.

Figure 30 shows that the majority of stores--79 percent--have square feet between 2,000 and 3,000 with only 4 percent of stores having less than 1,000 square feet. The average square footage of a new rural store was 2,700 compared to 2,353 for existing stores. New urban stores averaged 2,807 square feet compared to 2,614 square feet for existing stores. The average lot size of a new store was 34,015 square feet compared to 27,294 square feet for existing stores.

The average monthly rent increased significantly for both new and existing stores. The rent for a new store increased 19.9 percent to $4,197 a month compared to a 10.8 percent increase for an existing store. The continued increase in the investment required for a new store is, of course, reflected in the monthly rent. The average monthly rent increased to $1,652 in 1988 from $1,491 in 1987 for existing stores and is probably also affected by the cost of new stores built during the past several years and lease renewals, with investors setting rent levels based on the current cost of land acquisitions and store construction.

Approximately 28 percent of existing stores are owned and 72 percent are leased, compared to 25 percent and 75 percent in 1987. For new stores, approximately 47 percent are owned and 53 percent are leased compared to 31 percent and 69 percent in 1987. The significant trend in 1988 toward new stores being owned rather than leased reflects the limitations on passive losses from leasing real estate which were imposed by the Tax Reform Act of 1986.

Figure 30 - Store Square Footage, 1988

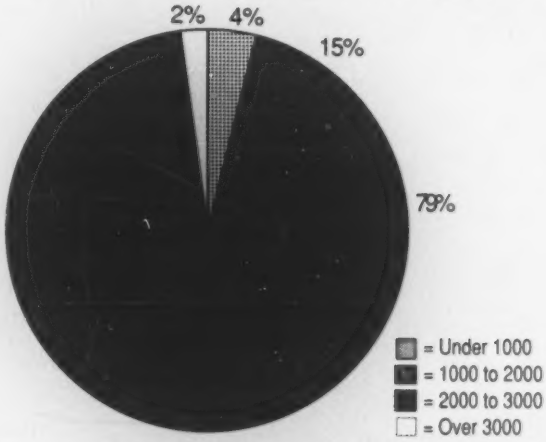


Figure 31 - Average Monthly Rent for New and Existing Stores

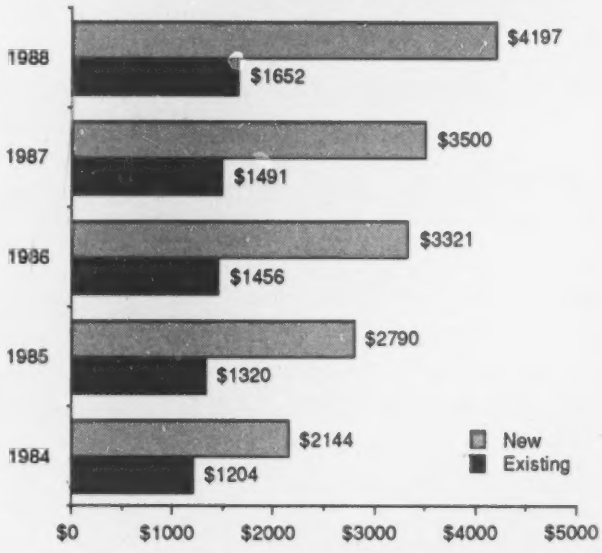


Figure 32 - Average Store Size, 1988 by Classification Group

Group	Square Feet
B	2,074
C	2,051
D	2,483
E	2,416
Average	**2,353**

Business Costs

Although gross margins increased in 1988, pretax profits declined. This section discusses various expense categories, which contributed to the reduction in pretax profits.

Figure 34 presents a summary of selected expense items. As shown, utility and advertising expenses remained relatively constant. Labor, as a percentage of merchandise and total sales, rose sharply to 15.9 percent of merchandise sales and 9.3 percent of total sales.

Interest expense has continued to increase and is at its highest level as a percentage of merchandise and total sales for all years presented. Nineteen eighty-eight saw a continuation of major acquisitions and management buy-outs which has added substantially to the total debt being carried by convenience store companies. Coupled with the financing required for new store development, interest costs continue to escalate and are rapidly becoming a major cost factor affecting profitability.

As shown in Figure 33, the average monthly utility costs per store increased 10 percent to $1,273 in 1988 from $1,156 in 1987. As a percentage of merchandise and total sales, utility costs were 3.7 percent and 2.2 percent in 1988 compared to 3.3 percent and 1.9 percent in 1987, respectively.

General and administrative expenses, as a percentage of merchandise sales, decreased slightly to 7.5 percent in 1988 from 7.7 percent in 1987. As a percentage of total sales, these expenses were 4.2 percent, the same as in 1987.

Advertising expenses, as a percentage of merchandise and total sales, remained constant, showing little change from the 1987 percentages.

Labor continues to represent the largest single expenditure and the ability to control wage rates and the average number of employees relative to sales is crucial to cost control. Labor costs, as shown in Figure 34, showed that, as a percentage of merchandise and total sales, such costs were 15.9 percent and 9.3 percent compared to 13.7 percent and 7.9 percent in 1987, respectively. As the average number of employees is approximately the same as in 1987, the increase in labor costs may be attributed to the higher wages being paid to

Figure 33 - Average Monthly Utility Costs Per Store

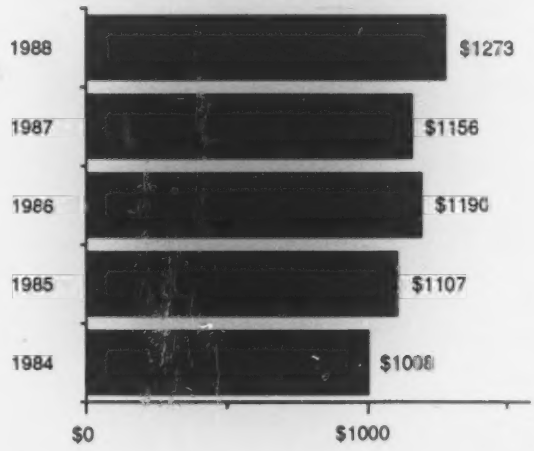


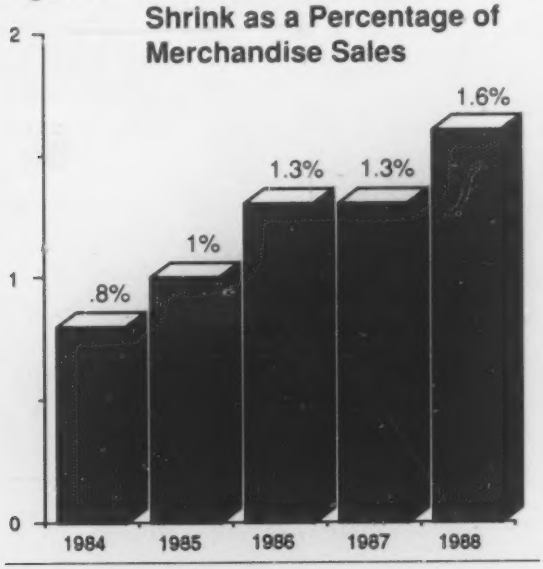
Figure 34 - Selected Expense Profile as a Percent of Merchandise and Total Sales

	Merchandise					Total				
	1984	1985	1986	1987	1988	1984	1985	1986	1987	1988
Labor	12.2	12.6	13.8	13.7	15.9	7.0	8.0	8.2	7.9	9.3
Utility	3.0	3.1	3.2	3.3	3.7	1.8	1.9	2.2	1.9	2.2
Advertising	.4	.6	.6	.5	.4	.3	.4	.4	.3	.3
Interest Expense	1.0	1.2	1.8	2.2	4.2	.7	.8	1.2	1.3	2.3

Figure 35 - General and Administrative Expenses by Classification Group

Group	As a % of Merchandise Sales					As a % of Total Sales				
	1984	1985	1986	1987	1988	1984	1985	1986	1987	1988
B	6.6%	5.7%	8.1%	8.0%	10.3%	3.0%	2.5%	3.4%	3.2%	3.6%
C	5.9	7.3	6.3	6.8	7.7	3.0	3.4	3.5	3.7	3.7
D	6.9	5.4	6.8	7.9	6.3	3.0	2.7	4.8	4.2	4.3
E	6.8	6.1	6.6	7.8	7.2	5.0	4.1	4.5	4.4	4.4
Average	**6.6**	**6.1**	**6.6**	**7.7**	**7.5**	**3.9**	**3.6**	**4.3**	**4.2**	**4.2**

Figure 36 -Merchandise Inventory Shrink as a Percentage of Merchandise Sales



attract new employees due to the shortage of unskilled labor.

Reported merchandise inventory shrinkage for the industry was 1.6 percent of merchandise sales in 1988, compared to 1.3 percent in 1987. Group "B" Companies reported inventory shrinkage of 1.2 percent, up from .9 percent in 1987. Group "C" Companies reported 1.0 percent, up from .8 percent in 1987. Group "D" Companies reported 1.2 percent compared to .9 percent in 1987. Group "E" Companies reported 1.8 percent, up slightly from 1.7 percent in 1987.

Insurance and taxes appear to have moderated in 1988. The Industry average for insurance and taxes was $8,000 in 1988 compared to $8,200 in 1987. All group companies reported little change from last year in the cost of insurance and taxes.

Depreciation and equipment rent also represents a sizable portion of fixed store expenses rising to $16,000 in 1988 from $14,800 in 1987. This was an increase of 8.1 percent over 1987. Group "C" and Group "E" Companies experienced sizable increases. It is not surprising to see the continued substantial increases in depreciation and equipment rent expense due to the significant increase in the cost of buildings and equipment for new stores over the past several years. Since 1984, depreciation and equipment rent has risen 86 percent.

Figure 37 - Fixed Store Expenses by Classification Group

Group	Insurance and Taxes					Depreciation and Equipment Rent				
	1984	1985	1986	1987	1988	1984	1985	1986	1987	1988
B	$4,100	$5,100	$6,500	$6,900	$6,800	$8,500	$9,800	$13,300	$15,500	$15,000
C	3,900	4,400	6,700	7,200	7,400	9,100	11,000	13,700	14,400	16,400
D	3,800	4,600	7,300	6,700	7,100	7,500	9,000	12,600	14,800	15,100
E	4,600	5,200	7,000	9,200	8.600	8,800	12,400	15,100	14,700	16,200
Average	**4,200**	**4,900**	**7,000**	**8,200**	**8,000**	**8,600**	**11,100**	**14,900**	**14,800**	**16,000**

Inflation and LIFO

Consumer Price Index

The inflation rate increased slightly during 1988 to 4.1% from 3.7% in 1987. This is in line with the rate of inflation experienced from 1984 through 1987 with the exception of the unusually low rate of 1.9 percent in 1986.

Figure 38 compares the overall rate by quarters as measured by the Consumer Price Index (CPI). The Index assumes a typical "market basket" of goods and services purchased by consumers.

The CPI inflation rate is heavily influenced by energy prices, home mortgage rates and other factors that are not part of the convenience store inflation rate, which is based on changes in inventory prices.

During 1988, the average price of convenience store products (gas and merchandise) increased 2.4% from 1987. Nineteen eighty-seven saw a 2.5% increase from 1986. The 2.4% 1988 increase is below the overall 4.1% increase in consumer prices in 1988. The CPI inflation rate for food products in general was 4.1% in 1988 compared to 4.2% in 1987.

Figure 38 - Consumer Price Index "Cost of Living" Increases

	1984	1985	1986	1987	1988
1st Quarter	4.4%	4.3%	(1.7%)	8.0%	3.8%
2nd Quarter	4.3	4.4	2.3	2.8	6.8
3rd Quarter	4.4	2.7	2.8	6.1	4.5
4th Quarter	2.9	3.6	1.1	0.5	2.2
Average for Year	4.3	3.6	1.9	3.7	4.1

Source: Bureau of Labor Statistics

LIFO

LIFO is an inventory costing technique which charges the most recent cost of goods to cost of sales and thereby reduces the reported profits in an inflationary period.

Approximately 55% of convenience store companies reporting now use LIFO to value their merchandise inventories. Some 23% of Group "B" companies, 48% of Group "C" companies, 65% of Group "D" companies and 56% of Group "E" companies currently are on LIFO. Approximately 46% of convenience stores reporting currently use LIFO to value their gas inventories.

The inventory inflation rate reported by operators using the LIFO method for inventories was 2.4%, which is based on a mixture of fiscal year-ends and different product mixes. Based on the 2.4% reported LIFO inflation rate and assuming an inventory investment of $50,000, a company using the LIFO method would report approximately $1,200 less pretax profit per store. Assuming a composite Federal and state income tax rate of 40%, companies on LIFO would have increased 1988 cash flow by about $480 per store on their merchandise inventory alone.

Figure 39 - Percentage of Total Companies Using LIFO for Merchandise Inventory in 1988

B	23%
C	48%
D	65%
E	56%
Average	**55%**

Figure 40 - Percentage of Total Companies Using LIFO for Gas Inventory in 1988

B	53%
C	33%
D	74%
E	43%
Average	**46%**

The average sales per store selling gas was $539,000 in 1988. The average store pumped 51,000 gallons per month, up from 47,000 gallons reported for 1987, an increase of almost 9 percent. The average number of hoses per store was 8.4 compared to 7 in 1987, and the average volume per hose was approximately 74,000 compared to 80,000 in 1987.

The average margin per gallon improved over last year. The average margin per gallon of company-owned gasoline was 10.9 cents in 1988 compared to 9.3 cents in 1987. The gross margin on commission pumps was 7.2 cents in 1988 versus 5.1 cents per gallon a year earlier. The overall average margin (owned and commission) increased in 1988 to 10.8 cents per gallon from 9.1 cents per gallon in 1987.

The average selling price per gallon was $0.88, the same as in 1987. The average gasoline sale per customer increased to $8.00 from $7.33 in 1987.

The percentage of convenience stores selling gas was 59%, the same as last year. The percentage of newly-built stores with gas dropped from 75% in 1987 to 65% in 1988. All company groups showed a decrease.

Average monthly gallons per store is shown, by group, in Figure 45. The industry average was up to 51,000 gallons. The Group "B," "C," and "D" companies each pumped an average of 68,000 gallons, and the Group "E" companies pumped an average of 41,000 gallons per month.

In 1988, 95% of the stores selling gas were "company-owned" operations while 5% were operated on a commission basis. The percent of commission operated stores was 6% in 1987; thus, 1988 continued the trend of fewer commission gasoline operations in the convenience store industry.

In 1988, there was a trend toward branded gas as branded sales represented 65% of all gasoline sales compared to 60% in 1987. Also, 11% of all gasoline sales were credit card sales.

In 1988, 62% of all stores with gasoline had canopies, up from 50% in 1987. Less than 3% of the stores selling gasoline had automated dispensing and island card readers.

Figure 41 - Percentage of Stores Selling Gas

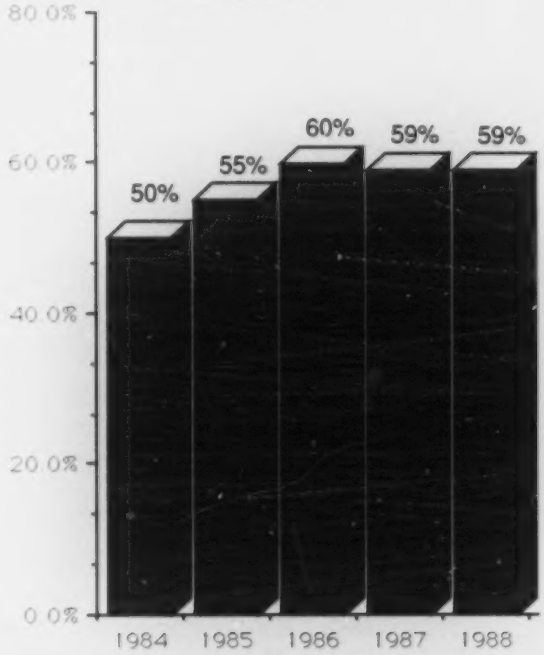


Figure 42 - Annual Gallons Per Gas Hose by Classification Group

Group	Gallons/Hose
B	65,708
C	71,053
D	80,615
E	74,263
Average	**74,195**

Figure 43 - Percentage of New Stores with Gas by Classification Group

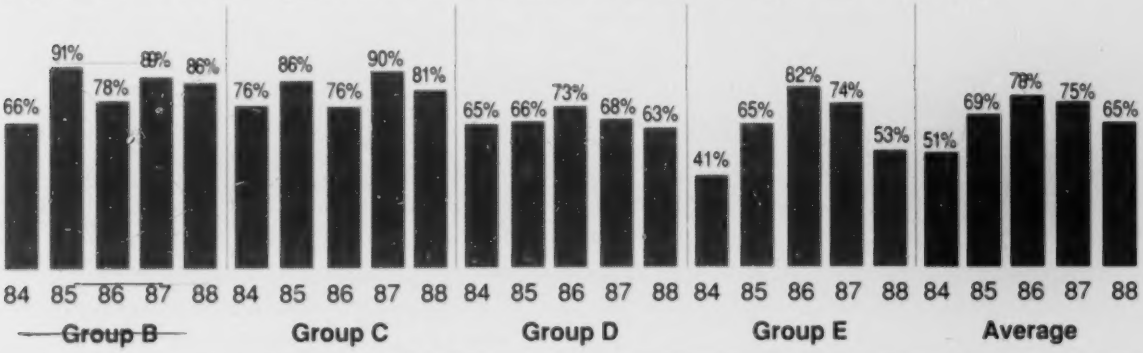


Figure 44 - Average Monthly Gallons of Gasoline Sold Per Store

(000)

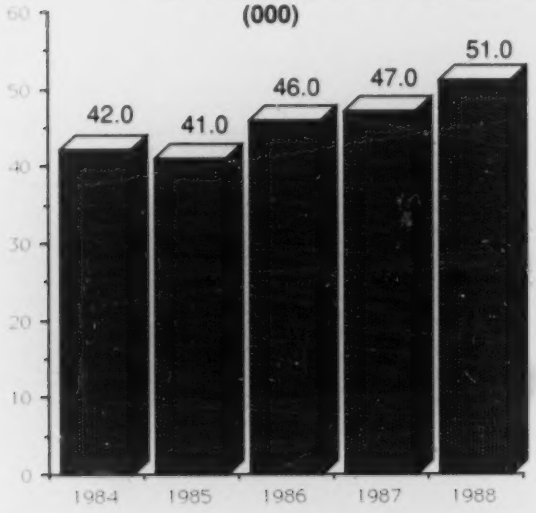
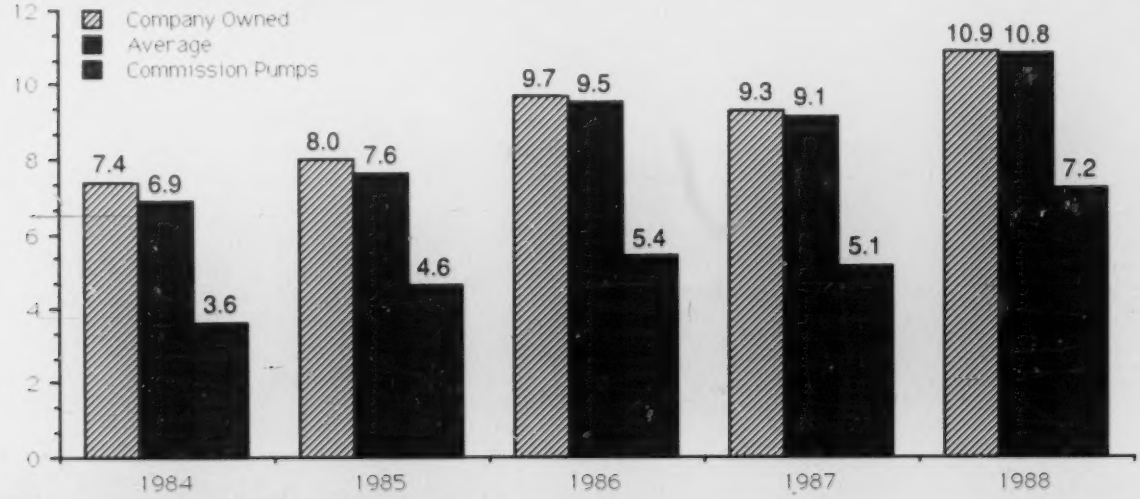


Figure 45 - Average Monthly Gallons of Gasoline Sold Per Store by Classification Group

Group	1984	1985	1986	1987	1988
B	46,000	52,000	68,000	60,000	68,000
C	44,000	49,000	50,000	49,000	68,000
D	52,000	45,000	48,000	48,000	68,000
E	40,000	37,000	42,000	46,000	41,000
Average	**42,000**	**41,000**	**46,000**	**47,000**	**51,000**

Figure 46 - Average Margin Per Gallon of Gasoline in Cents



Marketing and In-Store Merchandising

Over 90% of all convenience stores have microwave and fountain drink equipment. Fifty-five percent of the stores have video games and 40% rent video tapes. A majority of the stores also provide money orders, check cashing and prepared foods.

More than three-fourths of all convenience stores are open 24 hours per day. Also, most stores (92%) offer parking, with 20% of all stores having 10 or more parking spots.

Convenience stores have, on average, 1.4 cash registers. Of the stores reporting for this year's survey, about 1% had POS Scanning, the same as in 1987.

Tobacco, beer and soft drinks continue to rank 1, 2, and 3, respectively, in convenience store sales. The percentage of sales of these items to total merchandise sales has remained relatively constant over the last several years. Tobacco and soft drinks are sold in almost every convenience store while beer is sold in 77% of the industry's stores. Figure 48 gives product category sales as a percent of total store sales.

The product categories with the highest reported gross margin in 1988 were hot beverages, fountain drinks and frozen beverages. There was relatively little change in product category margins reported for 1988 versus the 1987 margins.

The average store inventory turnover was 9.5 times, a slight reduction from 11.1 times in 1987. (Since only 17% of the total companies responding answered the inventory turnover question, the sample size was limited. This should be considered when evaluating the turnover data.)

Figure 47 - Percent of Stores Offering the Following by Classification Group

	B		C		D		E		Average	
Specialty Products Offered:	1987	1988	1987	1988	1987	1988	1987	1988	1987	1988
Fountain Drinks	91	86	94	95	94	98	96	96	95	96
Prepared Foods (Fast Foods)	78	81	60	62	64	65	88	83	80	83
Service Deli	30	33	31	25	36	38	32	39	33	39
On-Premise Bakery	4	9	8	7	11	20	0	6	5	6
Fried Chicken	13	13	6	9	3	2	3	3	4	3
Pizza	13	20	6	6	11	3	6	4	7	4
Other	3	9	12	5	13	14	19	4	17	4
Services Offered:										
Microwave Equipment	98	88	89	95	87	88	95	95	92	95
Lottery Tickets	41	43	31	43	38	59	39	51	38	51
Vending Machines	8	18	15	5	9	1	4	2	7	2
Video Games	21	14	46	48	31	25	83	55	60	55
Film Processing	6	2	6	3	3	2	2	1	3	1
Video Rentals	45	22	56	35	51	36	68	44	63	40
Money Orders	63	44	71	64	62	63	93	89	84	77
Check Cashing	60	56	58	60	59	78	88	73	74	71
Automated Teller Machines	0	4	3	6	13	19	14	8	12	10
Credit Cards	63	68	71	75	52	49	36	73	47	68
Debit Cards	7	8	0	21	16	12	13	21	12	18
Seating for Fast Food	18	20	17	7	1	6	8	8	8	8
POS Scanning		2		7		0		0		1
Open 24 Hours per Day	60	51	59	66	70	64	85	92	76	79
Parking/Access (not counting parking at pumps)										
No parking, but convenient pedestrian access	3	3	1	2	1	2	1	2	3	2
1-10 striped spaces	82	69	64	47	77	41	93	92	83	72
10+ striped spaces	15	25	35	47	22	35	6	6	14	20

Figure 48 - Percent of Stores Selling the Following Categories by Classification Group

	B	C	D	E	Average
COOLER					
Beer	69.8%	61.0%	68.8%	85.0%	76.5%
Soft Drinks	99.7	100.0	100.0	100.0	100.0
Juices	87.5	92.2	79.9	96.5	91.7
Milk & Milk Products	98.3	98.5	100.0	100.0	99.7
Packaged Deli	66.5	70.6	76.5	100.0	87.8
Produce	12.3	39.0	56.0	25.6	33.9
Eggs	82.7	69.5	100.0	84.5	84.8
FROZEN					
Frozen Food	70.6	86.0	100.0	96.9	94.4
Ice Cream	93.4	90.8	100.0	96.9	96.3
Ice	91.8	100.0	100.0	100.0	99.6
ROOM TEMP.					
Bread & Cakes	95.7	99.3	100.0	96.9	97.9
Cookies	86.0	93.0	100.0	96.9	96.3
Salty Snacks (Chips,Nuts, etc.)	99.7	99.3	100.0	96.9	98.1
Candy & Gum	97.9	100.0	100.0	96.9	98.2
Groceries	96.9	96.6	100.0	96.9	97.5
Health/Beauty	96.1	97.0	99.9	96.9	97.5
Tobacco	99.8	100.0	100.0	100.0	100.0
Publications	81.0	91.4	99.7	96.9	93.9
Wine/Liquor	58.2	62.4	37.1	76.7	63.6
Auto/Motor Oil	86.8	90.7	85.8	96.9	92.9
Gen. Merchandise	91.0	91.0	100.0	96.9	94.3
FAST FOOD					
Sandwiches-Fresh	62.8	54.6	60.1	38.7	47.4
Sandwiches-Frozen	54.0	62.4	44.9	81.4	68.7
Deli Services (expt. sndwchs)	32.5	40.2	52.9	23.2	33.1
Food Cooked On-Site	28.2	32.9	27.4	12.5	19.6
Fountain Drinks	84.9	87.8	96.4	96.9	94.6
Frozen Beverages	53.8	46.5	61.1	89.8	74.1
Hot Beverages	86.7	86.1	98.1	96.9	94.8
Other Fast Food	31.9	42.6	59.9	87.5	70.6

Figure 50 - Percent of Companies Warehousing Specific Product Categories

	1987	1988
Dry Grocery	15%	10.5%
Health & Beauty	8	4.5
Dairy	23	9.0
Frozen Foods	13	10.5
Fast Foods	11	9.7
Tobacco	19	10.5
Soft Drinks	15	9.7
Other	--	26.1

Figure 49 - Industry Averages by Product Category

	Percent of Merchandise Purchases		Gross Margin Percentage		Inventory Turnover Rate	
	1987	1988	1987	1988	1987	1988
COOLER						
Beer	13.6%	11.5%	27%	27%	21.3	23.4
Soft Drinks	9.7	8.9	35	37	19.5	15.2
Juices	1.2	1.9	40	38	16.6	15.9
Milk & Milk Products	5.8	5.5	23	22	60.8	54.3
Packaged Deli	0.9	0.7	34	36	18.1	17.0
Produce	0.7	0.3	26	23	46.1	52.0
Eggs	0.3	0.2	26	22	26.6	23.1
FROZEN						
Frozen Food	0.6	0.6	36	37	7.1	6.1
Ice Cream	1.3	1.4	39	40	14.8	13.6
Ice	0.8	0.8	56	53	31.5	20.4
ROOM TEMP.						
Bread & Cakes	3.3	3.4	29	30	59.3	73.1
Cookies	0.7	0.7	36	36	11.8	10.9
Salty Snacks (Chips,Nuts, etc.)	4.2	4.1	36	36	32.1	21.4
Candy & Gum	5.3	5.0	42	43	26.1	17.1
Groceries	5.6	5.0	35	37	8.0	8.1
Health/Beauty	3.0	2.7	38	39	6.9	7.7
Tobacco	20.7	21.5	29	30	23.7	16.7
Publications	3.7	4.1	20	20	19.7	14.3
Wine/Liquor	1.3	1.8	30	32	16.4	7.9
Auto/Motor Oil	1.4	1.0	40	38	14.5	9.4
Gen. Merchandise	2.8	3.7	41	39	10.9	7.9
FAST FOOD						
Sandwiches-Fresh	1.8	2.1	41	41	54.2	70.7
Sandwiches- Frozen	1.2	1.2	37	37	31.1	41.5
Deli Services (expt. sndwchs)	3.0	3.5	45	40	34.4	28.0
Food Cooked On-Site	0.8	1.5	42	48	64.6	83.2
Fountain Drinks	2.4	2.8	60	64	20.5	15.6
Frozen Beverages	0.9	1.1	43	57	8.9	8.0
Hot Beverages	2.1	1.4	66	68	31.8	37.1
Other Fast Food	0.9	1.4	39	38	41.5	67.9
Total Merchandise	100%	100%			11.1	9.5

"A" Company Report

This section of the report specifically focuses on operations of smaller convenience store companies—1 to 10 stores. The smaller operations include companies new to the business and often have unique operating characteristics. A special questionnaire was mailed to NACS member companies having 10 or fewer stores. Sixty-six companies operating a total of 334 stores responded to the survey.

Store Characteristics

The "A" size companies operate stores that vary widely in physical size. Forty-five percent of the stores were less than 2,000 square feet and 55 percent were over 2,000 square feet.

Although many of the stores were smaller in size than the "B," "C," "D," and "E" Company stores, 98 percent provided customer parking spaces. Only 51 percent of the "A" company stores were open 24 hours.

The stores included in the survey had an average of 1.7 cash registers. Four percent of the stores had Point-of-Sale (POS) scanning.

Figure 51- "A" Store Characteristics

Size	
Under 1,000 sq. ft.	7%
1,000 to 2,000 sq. ft.	38%
2,000 to 3,000 sq. ft.	41%
3,000 to 4,000 sq. ft.	13%
Over 4,000 sq. ft.	1%
Hours Open	
Less than 24 hours	49%
24 hours per day	51%
Parking Spaces	
No parking	2%
1-10 spaces	59%
More than 10 spaces	39%

Operating Results

Average annual sales per store were $1,152,000, with $475,000 in sales of in-store merchandise. Eighty-two percent of the stores represented in the survey sold

Figure 52 - "A" Sales and Profitability

	Average Yearly Sales Per Store		Average Merchandise Gross Margin	Average Pretax Profit Including Gas
	Total	Merchandise		
1988	$1,152,000	$475,000	28.8%	1.8%
1987	$1,066,000	$380,000	28.6%	2.3%
1986	$1,111,000	$337,000	28.4%	2.5%
1985	$1,076,000	$343,000	29.1%	2.1%
1984	$881,000	$357,000	26.9%	2.4%

Figure 53 - "A" Operating Results

	1987	1988
Total Sales Per Store	$1,066,000	$1,152,000
Merchandise	$380,000	$475,000
Average Merchandise Gross Margin	28.6%	28.8%
Inventory Shrinkage as a Percent of Merchandise Sales	1.4%	1.4%
Percentage of Stores Selling Gasoline	90%	82%
Average Monthly Gasoline Sales Per Store	74,000 gallons	98,000 gallons
Average Gasoline Gross Margin	11.6%	12.8%
Percentage of Total Sales:		
Direct Store Operating Expenses	14.4%	14.6%
General & Admn. Expenses	3.7%	4.0%
Other Income	2.2%	.9%
Other Expenses	3.6%	.4%
Pretax Profit	2.3%	1.8%

gasoline, and average monthly gasoline sales were 98,000 gallons per store.

The average gasoline gross margin was 12.8 percent, and the average merchandise margin was 28.8 percent. Direct store operating expenses were 14.6 percent of sales while general and administrative costs were 4.0 percent of sales. Inventory shrink was 1.4 percent of merchandise sales. Other income and other expenses totaled .9 percent and .4 percent of total sales respectively. The bottom line for "A" Company stores was a pretax profit of 1.8 percent of total sales down from 2.3 percent in 1987.

Products and Services

Most "A" size companies offered the full range of product categories in their stores. In addition, 42 percent had a service deli compared to 27 percent in 1987, and 15 percent had an on-premise bakery compared to 7 percent in 1987.

The stores represented in the survey also had numerous customer services. Thirty-seven percent rented videos, 51 percent offered lottery tickets, 52 percent accepted checks, 37 percent sold money orders and 73 percent accepted credit cards.

Figure 54 - "A" Service Offering- Percentage of Stores Offering the Following:

	1987	1988
Microwave Equipment	92%	96%
Lottery Tickets	35	51
Vending Machines	12	19
Video Games	17	30
Film Processing	6	6
Video Rentals	30	37
Money Orders	22	37
Check Cashing	43	52
Automated Teller Machines	4	4
Credit Cards	77	73
Debit Cards	3	11

Figure 55 - "A" Product Offering: Percentage of Stores Selling the Following Product Categories

	1987	1988
COOLER		
Beer	71%	62%
Soft Drinks	97	99
Juices	96	98
Milk & Milk Products	93	98
Packaged Deli	82	84
Produce	31	42
Eggs	85	95
FROZEN		
Frozen Food	69	75
Ice Cream	87	95
Ice	94	98
ROOM TEMP.		
Bread & Cakes	93	97
Cookies	94	98
Salty Snacks (Chips,Nuts, etc.)	96	98
Candy & Gum	96	99
Groceries	89	97
Health/Beauty	92	97
Tobacco	98%	99%
Publications	79	86
Wine/Liquor	45	44
Auto/Motor Oil	96	94
Gen. Merchandise	92	96
FAST FOOD		
Sandwiches-Fresh	67	73
Sandwiches-Frozen	54	55
Deli Services (expt. sndwchs)	31	50
Food Cooked On-Site	29	44
Fountain Drinks	80	90
Frozen Beverages	46	59
Hot Beverages	90	98
Other Fast Food	29	56
ON-SITE PREPARED FOODS		
Service Deli	27	43
On-Premise Bakery	7	15
Fried Chicken	15	15
Pizza	11	17

Financial Analysis

This year's report contains balance sheet information for the group "A" convenience stores. In addition, data on return on assets and return on net worth are provided.

On average, 22.5% of assets are in inventory. Property, plant and equipment account for about 48.8% of assets.

On the liabilities side of the ledger, accounts payable equals 22.0% of assets while other current liabilities account for 10.2%. The ratio of accounts payable to inventory is 1 to 1, similar to the overall industry.

Long-term debt as a percent of assets goes up as company size increases. Group "A" Companies average 30.1% while the industry average is 51%. Other long-term liabilities equal 1.4% of total assets.

Net worth as a percent of assets was an average of 36.3% while the industry as a whole was in the 30% range. Pretax return on assets was 8.6% and pretax return on net worth averaged 19.7%

Figure 56 - "A" Balance Sheet

CURRENT ASSETS:	
Inventory	22.5%
Other Current Assets	21.6%
Total Current Assets	44.1%
Net Property, Plant & Equipment	48.8%
Other Assets	7.2%
Total Assets	100%
CURRENT LIABILITIES:	
Accounts Payable	22.0%
Other Current Liabilities	10.2%
Total Current Liabilities	32.2%
Long-Term Debt	30.1%
Other Long-Term Liabilities	1.4%
Net Worth	36.3%
Total Liabilities & Net Worth	100%
Pretax Return on Assets	8.6%
Pretax Return on Net Worth	19.7%

Human Resources

During 1988, on average, group "A" Companies had 8.9 employees per store--8.6 store employees and .3 non-store employees per store.

Recruiting and retaining quality personnel is a constant concern of convenience store companies. This year's report contains information on the demographic characteristics of and benefits available to store employees.

Approximately 56% of all store employees work full time. The majority of people working in group "A" Companies are women (73%), and 50% of all employees are 25 to 54 years of age.

Data on types of employee benefits are offered for the first time. A majority of companies surveyed provide free uniforms for all classifications of employees; less than 10% offer free meals; and less than 35% provide employee discounts on store purchases.

Figure 57 - "A" Store Employee Characteristics

	Percent of "A" Store Employees
Full-Time	56.3
Part-time	43.7
Male	27.3
Female	72.7
Under Age 20	11.7
Age 20-24	32.5
Age 25-54	50.4
Over Age 54	5.4

Figure 58 - "A" Store Employee Benefits

	Store Manager	Assistant Manager	Full-Time Clerk/Cashier	Part-Time Clerk/Cashier
Free Uniforms	56%	59%	59%	57%
Free Meals	9	8	6	5
Discounts on Purchases	35	33	32	32
Bonuses	82	56	36	31
Profit Sharing	35	33	29	15
Paid Vacation	97	87	77	34
Paid Sick Leave	70	49	39	11
Medical Insurance	86	71	61	17
Life Insurance	64	49	39	14
Disability Insurance	26	21	18	12
Dental Insurance	15	10	11	0
Pension	17	14	11	5
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